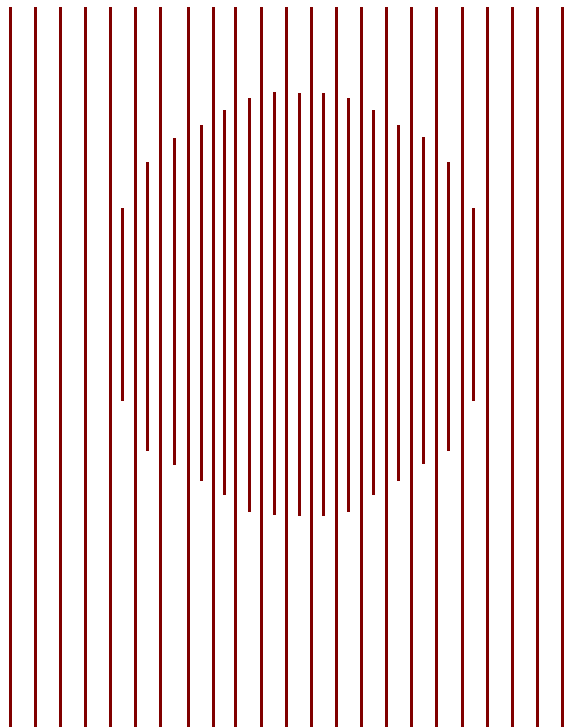


CBO PAPERS

CLOSING MILITARY BASES: AN INTERIM ASSESSMENT

December 1996



CONGRESSIONAL BUDGET OFFICE

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**CLOSING MILITARY BASES:
AN INTERIM ASSESSMENT**

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**CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515**

NOTES

Unless otherwise indicated, all figures are expressed in 1997 dollars.

PREFACE

In October 1988, the Congress enacted the Defense Authorization Amendments and Base Closure and Realignment Act of 1988, which established a bipartisan Commission on Base Realignment and Closure (BRAC). The purpose of the Commission was to review all military installations inside the United States and recommend which of them to close and consolidate. That Commission and its successors have completed their work and the Congress has authorized the Department of Defense (DoD) to carry out their recommendations. DoD has closed about half of the major installations authorized by the Congress, and will complete closing the remaining bases in about 2001.

This paper, prepared at the request of the Senate Armed Services Committee, examines the base realignment and closure process and provides an interim assessment of DoD's progress to date. It compares reductions to the base support structure with other measures of the defense drawdown as indicators of proportionality within the overall defense drawdown. It also examines DoD's effectiveness in carrying out BRAC procedures and decisions and addresses significant issues concerning the reuse of former military property. Data about the local economic and environmental impacts of BRAC actions highlight areas of major concern to the Congress, and a discussion of DoD's estimates of costs and savings outlines the need for near-term spending in order to achieve long-term savings. In keeping with the Congressional Budget Office's (CBO's) mandate to provide objective analysis, the study makes no recommendations.

Wayne Glass of CBO's National Security Division prepared the paper under the general supervision of Cindy Williams and Neil M. Singer. The author gratefully acknowledges the invaluable assistance of CBO colleagues Shaun Black, Sheila Roquette, and Doug Taylor, who provided assistance in collecting, analyzing, and presenting the data. The author also wishes to thank David Berteau for reviewing the text and providing suggestions for improvement.

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Director

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CONTENTS

SUMMARY

I	INTRODUCTION	1
II	CLOSING MILITARY BASES: ORIGINS AND PROCEDURES OF THE BASE REALIGNMENT AND CLOSURE PROCESS	11
	Key Elements in Closing and Realigning Bases Effectively 12	
III	COMPARING DEFENSE CUTBACKS WITH BASE CLOSURES: HOW MUCH IS ENOUGH?	19
	Dimensions of the Defense Drawdown 20 Base Realignments and Closures: What Has Been Done? 21 Could Additional Defense Facilities Be Closed? 25	
IV	PUTTING BASE REALIGNMENT AND CLOSURE INTO PRACTICE: PROGRESS TO DATE	29
	Is the BRAC Process on Schedule? 29 Is DoD Carrying Out BRAC Effectively? 31 How Will Former Military Bases be Used? 34 What Have DoD and the Congress Done to Carry Out BRAC More Effectively? 37	
V	MAJOR CONCERNS IN CARRYING OUT BRAC: ITS EFFECT ON PEOPLE, COMMUNITIES, AND THE ENVIRONMENT	45
	The Impact of Closing Bases: Who Is Hit and How Hard? 45 Other Potential Effects on Local Economies 51 Federal Assistance to Communities and Displaced Workers 54 Environmental Issues at Closing Bases 55	

VI	THE COSTS AND SAVINGS OF CLOSING AND REALIGNING BASES	59
VII	CONCLUSION	71

TABLES

1.	U.S. Military Force Structure	22
2.	Selected Statutory Deadlines for Transferring Surplus BRAC Property	40
3.	Total Number of Major Base Closures from BRAC I Through BRAC IV By State and U.S. Territory	46
4.	Top 10 States Gaining and Losing Jobs As a Result of BRAC Actions	48
5.	Impact of BRACs On Gaining and Losing Jobs in Top 10 States As a Percentage of State Employment	49
6.	Potential Increase in Unemployment Resulting from BRAC III Actions in Major Metropolitan Areas	50
7.	Potential Increase in Unemployment Resulting From BRAC III Actions in Selected Less-Populated Locales	52

FIGURES

1.	Schedule for Carrying Out Base Realignments and Closures (BRACs)	2
2.	Summary of the Base Realignment and Closure Process	13
3.	BRAC and the Drawdown: How Much is Enough?	23
4.	Summary of Major Base Closures by Type	24
5.	Impact of Base Structure Reductions Since 1988	26

6.	Department of Defense Estimates of Backlog of Maintenance and Repair	27
7.	Comparison of Timing of Base Closings for BRACs in 1988, 1991, and 1993	32
8.	Planned Property Disposal for Major Bases in BRAC I and BRAC II	36
9.	Planned Property Disposal to Federal Agencies for Major Bases in BRAC I and BRAC II	38
10.	Planned Public Benefit and Economic Development Transfers to State and Local Authorities for Selected Major Bases in BRAC I and BRAC II	39
11.	Profile of Total BRAC Costs and Savings by Account	60
12.	Baseline and Current Estimates of Annual Net Savings from Carrying Out BRAC I	63
13.	BRAC Projected Land Revenues for BRAC I, Fiscal Years 1991 and 1996 Budget Estimates	64
14.	Comparison of Baseline and Current Environmental Cost Estimates, BRAC I-III	65
15.	Baseline and Current Estimates of Annual Net Savings From Carrying Out BRAC II	67
16.	Initial and Current DOD Estimates for Net Savings During Base Realignment and Closures as of December 7, 1995	68
 BOX		
1.	Major Base Closures	30

SUMMARY

The end of the Cold War significantly reduced many of the nation's military requirements and resulted in major cutbacks in defense personnel, the weapons they operate, and the support services they need. Closing and realigning military bases overseas and in the United States has been an essential part of the post-Cold War drawdown of U.S. military forces. Determining the appropriate quantity and type of bases to close and realign has been a major concern of the Department of Defense (DoD) and the Congress.

Beginning in 1988, when the Congress authorized the first Commission on Base Realignment and Closure (BRAC), the Department of Defense undertook a major review of the military bases supporting active duty and reserve forces and recommended closing and consolidating hundreds of surplus installations. BRAC Commissions convened in 1988, 1991, 1993, and 1995 recommended that the Congress authorize DoD to close 97 of 495 major bases in the United States and realign hundreds of others. According to DoD estimates, it will cost about \$21.5 billion to close and realign those bases. DoD expects that those actions will generate about \$56.7 billion in net savings discounted to present value over a 20-year period.

The Department of Defense has shut approximately half of the bases that the Congress directed to be closed. Action on the final round of closures has only just begun. Many observers have called for the Congress and DoD to consider shutting additional bases beyond those already being closed. This paper provides the Congress with an interim assessment of the BRAC process that could assist the Department of Defense in carrying out its final actions and the Congress in considering whether to close additional bases using the BRAC process.

BACKGROUND: ORIGINS AND PROCEDURES OF THE BASE REALIGNMENT AND CLOSURE PROCESS

The BRAC process introduced a major change in the way that DoD managed its base structure. Between the conclusion of the Vietnam War and 1988, the Department of Defense closed no major bases—a reflection of the military requirements of the time and restrictive legislation that impeded closing bases even if DoD had wished to do so. In the mid-1980s, as defense spending began to fall, the Reagan Administration and the Congress sought to achieve savings by reducing the size of the base structure. In 1988, the Secretary of Defense established and the Congress later authorized a

bipartisan Commission on Base Realignment and Closure to seek greater efficiencies through closing and realigning bases. The BRAC process gained momentum as the Cold War ended, and the Congress authorized additional BRAC commissions to meet in 1991, 1993, and 1995.

Before 1988, the Secretary of Defense could close a major military base only when the Congress approved his recommendation and authorized the necessary funding. Under the old system, the Congress approved closing bases on a case-by-case basis and required DoD to submit extensive reports on the potential strategic, environmental, and local economic consequences of closing a base. The introduction of the BRAC process instituted a new approach requiring the Congress to authorize or reject closing a group of bases recommended by the BRAC—an independent bipartisan commission. The BRAC's recommendations were based on proposals submitted by the Department of Defense and approved by the President. The new process precluded the Congress from making adjustments to the commissions' recommendations and facilitated the process by reducing reporting requirements. Legislation governing BRAC procedures required the Department to begin closing bases within two years and to complete BRAC actions within six years.

The Secretary of Defense issued guidelines to the services to ensure that military requirements would continue to be met in deciding which bases to propose for closure. The military value of an installation—its mission and performance rating—was foremost among the selection criteria. Other evaluative factors included the availability and condition of land, facilities, and airspace; the ability to meet contingency requirements; potential cost and savings; and potential environmental and local economic impact. The services applied those factors in examining their facilities in each of five major categories: fighting, training, industrial, medical, and command and control. Using the Cost of Base Realignment Actions model, the services determined which bases were surplus in each of the categories and recommended closure and realignment actions to the Secretary. Under BRAC procedures, the Secretary submitted his recommendations to the President for review before forwarding a final list of proposed actions to the BRAC Commission. The process prevented the Congress from making adjustments to the Commissions' recommendations before authorizing the DoD to proceed with closures and realignments.

COMPARING DEFENSE CUTBACKS WITH BASE CLOSURES: HOW MUCH IS ENOUGH?

There is no clearly defined arithmetical relationship between the size of the military forces and the quantity of bases needed to support them. Determining the appropriate

number of bases to close requires a close examination of military requirements, including contingency plans and strategic projections as well as existing inventories of weapons, manpower, and facilities and their capabilities. The Department of Defense addressed those questions in considering which bases to close. CBO did not evaluate DoD's judgments, but examined whether the planned reductions in the base structure were proportionate to the kinds of reductions that have occurred as part of the overall drawdown.

Closing Bases Overseas Should Be Considered

Determining whether cutbacks to the base structure are proportionate to other reductions should take into consideration bases located overseas as well as in the United States. CBO's measures of proportionality in this study, however, compare only BRAC actions affecting domestic bases with other measures of defense reductions in recent years. The Department of Defense reports that it has closed 58 percent of its overseas facilities since September 1989—a figure that corresponds roughly with a 53 percent decrease in the number of military personnel who served abroad during the same period. DoD's figures, however, include all sizes of military installations and therefore do not provide a precise measure of the reduction in capacity of overseas bases. How much capacity has been closed overseas would be a more useful measure of proportionality and would also suggest whether reductions to the domestic base structure must be disproportionate, given the overall size of defense reductions both at home and abroad. The Congress could benefit from such information in considering whether to proceed with additional base closures.

Measures of Proportionality Suggest More Cuts Could Be Made

Defense cutbacks in a number of major categories exceed the value of reductions made in the base structure. Total defense spending measured in budget authority, for example, has declined by more than 35 percent in real terms since 1985 compared with DoD's estimate that the base structure will be reduced by 21 percent when all BRAC actions have been taken. (DoD's estimate measures the "plant replacement value" of facilities—today's cost of replacing comparable facilities, pavements and utilities.) Defense employment, including military and civilian personnel, has fallen by 28 percent, and the Congress has reduced spending for developing and buying weapons by about 54 percent during the past decade.

DoD's estimate of the reduced value of military facilities, however, exceeds cutbacks in spending for operations and maintenance (O&M) and base operations and support (BOS). Spending for O&M has declined by only about 14 percent and

for BOS by 13 percent since 1985. Those figures suggest that additional savings could be achieved if proportionality was an adequate criterion for reducing the size of the base support structure.

High Cost of Maintaining Facilities Suggest that Additional Cuts Could Be Useful

Data concerning the relationship between the size of the infrastructure, the number of military personnel, and the cost of maintaining facilities suggest that DoD may not be providing sufficient funds to cover the cost of maintaining facilities. According to DoD estimates, the space per capita of defense facilities in the United States increased by about one-third. At the same time, the Department of Defense estimates that the cost of maintaining those facilities would decrease from about \$11 a square foot in 1988 to about \$8.50 a square foot in 1997. The backlog of maintenance and repair has increased significantly as spending for maintenance has declined. If the costs of maintenance remain at the 1988 level rather than declining as DoD projects, the Department of Defense could be underfunding maintenance of its facilities by as much as \$3.9 billion in 1997. One alternative to making up such a shortfall could be to reduce the size of the infrastructure beyond levels directed by BRAC.

PUTTING BRAC INTO PRACTICE: PROGRESS AND PLANS

DoD has closed only about one-half of the bases scheduled for closure by the BRAC Commissions. Many more bases must be closed before that phase of the process is complete. Many more years must pass before DoD completes the transfer of its surplus property to other users to aid in economic recovery for communities affected by base closures. In some instances, environmental cleanup efforts may continue for decades. CBO's assessment, therefore, describes only DoD's performance to date and relies on projections to characterize the future. Those projections, however, serve as a useful baseline from which to examine how BRAC is eventually carried out.

DoD Is Closing Bases On Schedule

The law requires that DoD must complete all closures within six years from the date on which the President transmits his approval of the Commission's recommendations to the Congress. DoD considers a base closed when all of its missions have ceased or been relocated, and all personnel assigned to the facility have either been released from service or relocated. DoD reports that it has closed all 16 of the major bases required to be closed by September 30, 1995 and projects that closures directed by subsequent BRACs will be completed by the required dates. As of March 1996, the

Department of Defense had closed 24 of 26 major bases that were to be closed by BRAC II and eight of 28 bases scheduled for closure by BRAC III.

DoD Is Carrying Out BRAC Procedures and Decisions Effectively

Closing bases quickly can facilitate the reuse of former military property and help accelerate recovery from the effects of losing an important local economic asset. DoD's experience with carrying out the initial round of BRAC contributed to more efficient closures in successive rounds. By the fourth year of putting BRAC I into effect, for example, DoD had closed only 22 percent of the bases scheduled to be closed. Within a four-year period BRAC II will have closed about 73 percent of its slated bases and BRAC III almost 50 percent.

DoD and the communities affected by BRAC are also completing plans for reusing former military property more efficiently than at the outset of the BRAC process. Final reuse plans outline the disposition of surplus property for virtually all bases affected by the first three rounds of base closures. The Department of Defense reports that the average time taken to complete reuse plans has decreased from about two and one-half years for BRAC I bases to about one year for BRAC III bases. Communities have changed "final" reuse plans, however, and have delayed reuse activities as a result. Future research could identify the degree to which this practice has had an impact on local economic recovery and could be instructive with respect to reuse planning in the future.

Stability is an important feature of the effectiveness of the BRAC process because predictability can affect local economic activity and individual lives. Greater stability in making and carrying out decisions creates an important climate needed to aid in economic recovery. Frequent changes in previous decisions could cause additional costs and delays in closing and realigning bases. Later BRAC commissions have made relatively few changes in earlier BRAC decisions. The BRAC III Commission, for example, recommended only about 7 percent of BRAC actions directed by BRAC I and BRAC II. The Commission's recommendations for BRAC IV would revise only about 6 percent of the total actions by the first three rounds of realignment and closure. In each case, the Department of Defense estimates that the additional costs incurred by changing a previous decision would be more than offset by net savings that could provide economic justification.

Reuse Plans Will Produce Broad Public Benefits For Federal and Local Jurisdictions

Legislation governing the disposal of excess federal property permits federal and local agencies and jurisdictions to make claims before selling property for private use. Under current law, the Department of Defense can transfer property from one military component to another before offering it to other federal agencies or local authorities. DoD may transfer property for public uses such as airports, educational and health facilities, historic monuments, ports, parks, recreational areas, and wildlife preserves. The Department of Defense may also give property to local authorities for the purpose of economic development or to provide shelter for the homeless.

According to current plans in BRAC I and BRAC II for reusing major bases, federal agencies will retain about 58 percent of the total property. About half of that land contains unexploded ordnance and will be transferred to the Department of the Interior's Fish and Wildlife Service for use as preserves for wildlife. The Department of Defense will keep about 13 percent of the total surplus property for alternative military uses such as providing facilities for the Defense Finance and Accounting Service and reserve and national guard forces. Other federal agencies will retain about 3 percent of the surplus property for public purposes such as prisons and Job Corps training sites.

Communities will use about 20 percent of the surplus property for various public benefits, most of which involve converting former military air bases to commercial airports. Local authorities will also use about 7 percent of the land for parks and recreation areas and about 3 percent of the property for other public benefit purposes including educational facilities, homeless assistance, and state prisons. Communities will also use about 12 percent of the total surplus property for economic development.

BRAC'S EFFECTS ON PEOPLE, COMMUNITIES, AND THE ENVIRONMENT

Closing military bases can mean severe dislocation for families and economic loss for communities. The Congress has expressed its concern over the full impact of the BRAC process and about ways in which the government can assist individuals and communities in recovering losses. DoD's projections of the potential economic impact of BRAC suggest that the negative effects will be negligible in all but a few cases.

Effects On Employment Expected To Be Negligible With Few Exceptions

In the context of the nation's economy, according to DoD's projections, BRAC will have a very small impact on the total workforce. The Department estimates that BRAC will result in the loss of approximately 236,000 jobs, including about 120,000 jobs in local economies that are indirectly related to the realignment and closure of bases. Those cutbacks will occur during a 12-year period, thus ameliorating their effects in the short term. Even if compared with the size of today's labor force, the potential impact is small. Anticipated job losses would constitute only about two-tenths of 1 percent of the nation's total employment level as of August 1996. Those projections, as negligible as they appear, represent a worse-case scenario because they do not take offsetting economic activity into account.

BRAC will probably have relatively minor effects on employment at the state level. The Department of Defense projects that no state would see a drop in employment of more than 1 percentage point as a result of BRAC actions. Only Guam—where DoD projects unemployment to increase by as much as 8 percentage points—would exceed that threshold. Most states, 29 plus the District of Columbia and Guam, will end up losing jobs, but 19 states are expected to gain employment as a result of BRAC actions. States with a large military presence—California, Florida, Pennsylvania, New York and Texas—will probably lose the most jobs. Other states, such as South Carolina and Louisiana, however, stand to lose the most jobs as a percentage of state employment.

Cutbacks in jobs are likely to affect employment figures more in communities than in states. DoD estimates, for example, that unemployment in 34 communities affected by base closings under BRAC III could increase by an average of about 5.8 percentage points. (Again, those projections do not consider potential economic activity that could offset job losses.) DoD's projected increases in unemployment for some smaller communities such as Tooele County, Utah, and Monterey County, California, are quite high. DoD also anticipates, however, that the impact of BRAC actions on employment in heavily populated areas is likely to be negligible because military employment in those areas constitutes a much smaller proportion of the workforce than in smaller communities. Besides, other economic activity is likely to offset losses in employment.

A recent study by RAND examined local economic impacts of closing bases in selected communities in California and concluded that actual effects were significantly more benign than originally projected. Because the Congress remains concerned about the local economic effects of closing bases, it could request further study of that phenomenon in order to provide an empirical perspective from which to consider additional base closings.

Federal Assistance Programs Have Aided Communities and Displaced Workers

The Department of Defense and other federal agencies offer a wide range of programs to provide assistance to communities and individuals dislocated economically as a result of base closures and realignments. As of August 1996, the federal government had awarded about \$559 million in assistance grants to communities and workers affected by the first three rounds of BRAC. Four agencies are the principal sources of federal aid. The Federal Aviation Administration has provided about \$182 million to assist in converting military aviation facilities to civilian use. The Office of Economic Adjustment in DoD has awarded about \$120 million to assist communities in planning the reuse of former military properties. The Economic Development Administration in the Department of Commerce has spent more than \$150 million to help communities bear the cost of removing buildings, improving infrastructure, and assisting businesses with loans. The Department of Labor has allocated about \$103 million to help retrain workers.

Those funds, however, do not include the government's costs for a multitude of other assistance programs available to those affected by base closings, such as unemployment insurance, education assistance, Aid to Families with Dependent Children, Food Stamps, Medicaid and others. In addition, local jurisdictions and private employers also provide assistance to displaced workers.

Federal agencies have provided considerable assistance to communities, businesses and individuals affected by BRAC actions, but there are no comprehensive figures on the amount of assistance offered. Nor have analysts examined the effectiveness of those assistance programs. The Congress could request further information regarding the extent and effectiveness of BRAC-related assistance programs to provide an important perspective on possible future needs should DoD close additional bases.

Environmental Cleanup Is Proceeding Slowly And Growing More Costly

Environmental contamination is widespread among closing bases, including severely polluted sites on bases identified on the National Priorities List—otherwise known as "Superfund" sites. Much of the property on closing bases contains unexploded ordnance and polluted groundwater—two of the most difficult and expensive types of contamination to clean up. DoD estimates that it will spend about \$6.6 billion to clean up bases scheduled for closing during the first four rounds of BRAC. That estimate understates the full cost of cleanup, however, since it covers only the six-year period governing the completion of the BRAC process. In many cases, cleaning

up buried ordnance and contaminated groundwater will probably take much longer than six years and will incur substantial additional operating and support costs.

If history is a guide, estimated cleanup costs will probably continue to rise. In January 1990, for example, DoD estimated it would spend about \$570 million to clean up bases being closed in BRAC I; in March 1996, DoD's estimate increased to about \$1.1 billion. Estimates for cleaning up BRAC II bases have increased from about \$800 million to almost \$2 billion. Estimates are likely to continue to increase because most of DoD's cleanup work is still in the early phase of investigation and analysis. The extent and type of contamination often proves more challenging as sampling and analysis proceeds. Technologies for remediation can also incur unexpected costs if more sophisticated technologies are needed to meet cleanup standards.

The Congress and DoD have taken steps to ensure that contamination does not delay the reuse of surplus property. Legislation now permits leasing contaminated property to permit early reuse while the Department of Defense remains liable for the required cleanups. As of June 1996, DoD signed 552 leases for former military property. Most of the leases are for shorter terms, but some extend for more than 50 years. Some observers have concluded that long-term leases will enable the Department of Defense to avoid its cleanup responsibilities. That view could lead to litigation that could delay reuse of former military property until the courts resolve the issue. The Congress may wish to consider that in forthcoming legislative sessions to ensure that DoD transfers property that can be reused without delay.

In addition, legislation has authorized the Department of Defense to identify uncontaminated parcels of land that may be sold or transferred separately. As of September 1995, DoD had identified about 164,000 acres of land that were uncontaminated. Regulating agencies concurred that about 76,000 of those acres were clean and available for immediate transfer. DoD, however, has not identified how much of that kind of land has actually been transferred.

LONG TERM SAVINGS ARE SIGNIFICANT BUT UNCERTAIN

Potential savings, while not the determining factor for base realignment and closure decisions, have been important to the decisionmaking process. Departmental guidance for the first three rounds of BRAC required each BRAC action to demonstrate the potential to achieve net savings within six years. BRAC IV actions were also required to demonstrate potential net savings over an unspecified time. DoD anticipates that all BRAC actions will yield about \$56.7 billion in net savings

over a 20-year period discounted to present value. Most of those savings will accrue, according to DoD, after the implementation period, during which most of the expenses of closing and realigning bases occur. The Department of Defense has incorporated those projected savings into future budget plans. If those projections are not realized, however, DoD may have to redirect funds to pay the unanticipated costs or unachieved savings of BRAC actions, or it may have to request additional funding from the Congress. Confirmation of actual costs and savings would be very useful in determining whether future budget adjustments will be needed.

CBO believes that BRAC actions will result in significant long-term savings, but was unable to confirm or assess DoD's estimates of cost and savings because the Department is unable to report actual spending and savings for BRAC actions. A comparison of DoD's initial and current projections of costs and savings, however, permitted CBO to assess the reliability of DoD's figures as the Congress contemplates whether to proceed with an additional round of base closures.

In January 1990, DoD estimated that the first round of base closures could achieve about \$850 million in net savings during the period from 1990 through 1995. The Department of Defense now estimates that BRAC actions will not produce net savings during that period, but will result in net costs of about \$500 million—about \$1.3 billion less in net savings than the Department originally projected. Overly optimistic projections of revenues from land sales explain much of the estimating error. DoD originally expected to raise about \$2.4 billion in revenues from the sale of property, but has only received about \$74 million in actual sales. In addition, DoD underestimated the cost of environmental cleanup, which has increased from about \$570 million to about \$1.1 billion, according to departmental estimates. At the same time, DoD has reduced its estimates of the costs of military construction and operations and maintenance for BRAC I by about half.

A similar comparison of DoD's initial and current estimates for BRAC II indicates analogous changes. DoD originally estimated that it would net about \$2.9 billion in savings during the 1992-1997 period for the second round of closing and realigning bases. The Department of Defense now estimates that it will save only about \$1 billion. Overoptimistic projections of land revenues and rising costs of environmental cleanup explain much of the difference. Estimates for other categories of costs and savings have also undergone significant adjustments that offset one another.

Given the major adjustments that DoD has made in its cost and savings estimates for the first two rounds, is it reasonable to assume that there will be similar variances in estimates for the final two rounds? The Department of Defense's estimates for land revenues for BRAC III and BRAC IV are considerably more

modest than for the first two rounds, but costs for environmental cleanup could continue to increase significantly above initial estimates. DoD has already made significant adjustments of estimates for other categories of spending and savings for BRAC III that suggest that those estimates remain highly uncertain. The Congress could consider requesting DoD to audit a sample of bases included in BRAC IV to provide some empirical information on costs and savings that could be useful in assessing potential savings from future base closings.